

**REPORT OF THE AUDIT OF THE  
SPENCER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**SPENCER COUNTY FISCAL COURT**

**June 30, 2015**

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Spencer County Fiscal Court.

**Financial Condition:**

The Spencer County Fiscal Court had total receipts of \$5,993,168 and disbursements of \$5,706,225 in fiscal year 2015. This resulted in a total ending fund balance of \$943,080 which is an increase of \$486,943 from the prior year.

**Report Comment:**

2015-001    Spencer County Fiscal Court Lacks Adequate Internal Controls Over The Payroll Process

**Deposits:**

The fiscal court's deposits as of June 30, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$73,230

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable John Riley, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Spencer County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Spencer County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Spencer County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Spencer County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Spencer County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Spencer County Fiscal Court. The budgetary comparison schedules and capital asset schedule, are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.



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**Other Matters (Continued)**

*Other Information (Continued)*

The accompanying budgetary comparison schedules and capital asset schedule, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016 on our consideration of Spencer County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spencer County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2015-001    Spencer County Fiscal Court Lacks Adequate Internal Controls Over The Payroll Process

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts

March 11, 2016

SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

John Riley	County Judge/Executive
Jim J. Williams	Magistrate
Hobert Judd	Magistrate
Brian Bayers	Magistrate
Collis Rogers	Magistrate
David Goodlett	Magistrate

**Other Elected Officials:**

Kenneth S. Jones	County Attorney
Darrell Herndon	Jailer
Lynn Hesselbrock	County Clerk
Becky M. Robinson	Circuit Court Clerk
Donald Stump, Jr.	Sheriff
Kim Stump	Property Valuation Administrator
Danny Hilbert	Coroner

**Appointed Personnel:**

Doug Williams	County Treasurer
Karen Clark	Chief Financial Officer

**SPENCER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**



**SPENCER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Total Funds</b>
<b>RECEIPTS</b>				
Taxes	\$ 2,323,731	\$	\$	\$ 2,323,731
In Lieu Tax Payments	29,222			29,222
Licenses and Permits	311,064			311,064
Intergovernmental	1,260,774	1,323,383	106,911	2,691,068
Charges for Services	414,054			414,054
Miscellaneous	201,491	20,499		221,990
Interest	1,538	441	60	2,039
Total Receipts	<u>4,541,874</u>	<u>1,344,323</u>	<u>106,971</u>	<u>5,993,168</u>
<b>DISBURSEMENTS</b>				
General Government	1,966,753			1,966,753
Protection to Persons and Property	1,077,514		240,390	1,317,904
General Health and Sanitation	235,109			235,109
Social Services	97,534			97,534
Recreation and Culture	125,557			125,557
Roads		1,055,208		1,055,208
Debt Service	42,017			42,017
Administration	698,930	143,297	23,916	866,143
Total Disbursements	<u>4,243,414</u>	<u>1,198,505</u>	<u>264,306</u>	<u>5,706,225</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>298,460</u>	<u>145,818</u>	<u>(157,335)</u>	<u>286,943</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financial Obligation Proceeds	200,000			200,000
Transfers From Other Funds		100,000	175,000	275,000
Transfers To Other Funds	(275,000)			(275,000)
Total Other Adjustments to Cash (Uses)	<u>(75,000)</u>	<u>100,000</u>	<u>175,000</u>	<u>200,000</u>
Net Change in Fund Balance	223,460	245,818	17,665	486,943
Fund Balance - Beginning (Restated)	378,751	1,547	75,839	456,137
Fund Balance - Ending	<u>\$ 602,211</u>	<u>\$ 247,365</u>	<u>\$ 93,504</u>	<u>\$ 943,080</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 648,891	\$ 248,777	\$ 93,504	\$ 991,172
Less: Outstanding Checks	(46,680)	(1,412)		(94,772)
Fund Balance - Ending	<u>\$ 602,211</u>	<u>\$ 247,365</u>	<u>\$ 93,504</u>	<u>\$ 943,080</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

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**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Spencer County includes all budgeted funds under the control of the Spencer County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**E. Spencer County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Spencer County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).



**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$73,230

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Total Transfers In
Road Fund	\$ 100,000	\$ 100,000
Jail Fund	175,000	175,000
Total Transfers Out	<u>\$ 275,000</u>	<u>\$ 275,000</u>

Reason for transfers:

To move resources from the General Fund for budgetary purposes, to the funds that will expend them.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Ambulance Building**

On January 15, 2013, Spencer County Fiscal Court signed an agreement with the Spencer County Extension Foundation to purchase the old extension building for \$250,000 at an interest rate of 0% for 10 years. Spencer County Fiscal Court paid \$25,000 and will pay the remaining balance of \$225,000 at the rate of \$1,875 per month until paid in full. The following schedule indicates the required principal payments according to the original lease agreement. The outstanding principal balance was \$168,750 as of June 30, 2015.

<u>Fiscal Year Ended June 30, 2015</u>	<u>Principal</u>
2016	\$ 22,500
2017	22,500
2018	22,500
2019	22,500
2020	22,500
2021-2023	<u>56,250</u>
Totals	<u>\$ 168,750</u>

**B. Floodwall**

On August 27, 2014, Spencer County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to borrow \$200,000 to finance the inspection, repair, and recertification of a levee to USACE standards at a fixed interest rate of 3.430% for five years. Spencer County Fiscal Court paid \$38,559 during fiscal year 2015 and will pay the remaining principal balance at the rate of \$3,333 per month until paid in full. The following schedule indicates the required principal payments according to the original lease agreement. The outstanding principal balance was \$166,667 as of June 30, 2015.

<u>Fiscal Year Ended June 30, 2015</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 40,000	\$ 5,173
2017	40,000	3,769
2018	40,000	2,378
2019	40,000	986
2020	<u>6,667</u>	<u>29</u>
Totals	<u>\$ 166,667</u>	<u>\$ 12,335</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Changes In Long-term Debt**

Long-Term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 191,250	\$ 200,000	\$ 55,833	\$ 335,417	\$ 62,500
Total Long-Term Debt	<u>\$ 191,250</u>	<u>\$ 200,000</u>	<u>\$ 55,833</u>	<u>\$ 335,417</u>	<u>\$ 62,500</u>

**Note 5. Commitments and Contingencies**

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant; in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**Note 6. Employee Retirement System**

**A. Plan Description**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous *and hazardous duty* positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$595,782, FY 2014 was \$593,823, and FY 2015 was \$561,056.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

Kentucky Retirement Systems issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**B. Net Pension Liability**

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Spencer County's proportionate share of the net pension liability as of June 30, 2015 is:

	June 30, 2014	June 30, 2015
Hazardous	\$ 2,391,000	\$ 2,141,000
Non-Hazardous	2,104,000	1,859,000
Totals	<u>\$ 4,495,000</u>	<u>\$ 4,000,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

**Note 7. Deferred Compensation**

On March 15, 2010, the Spencer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Health Reimbursement Account/Flexible Spending Account**

The Spencer Fiscal Court, established a flexible spending account on July 1, 2009 to provide employees an additional health benefit. The county has contracted with Febco, Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$750 each year to pay for qualified medical expenses.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 9. Insurance**

For the fiscal year ended June 30, 2015, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Prior Period Adjustments**

The prior period ending balance for the general fund and the jail fund was increased by \$1,391 and \$49 respectively to include prior year voided checks.

**Note 11. Accounts Receivable**

The Spencer County Fiscal Court provides ambulance services for citizens in the county. The ambulance service bills Medicare, Medicaid, health insurance companies and individuals for services provided. Unpaid bills at June 30, 2015 totaled \$424,418.

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**





**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 2,213,500	\$ 2,218,161	\$ 2,323,731	\$ 105,570
In Lieu Tax Payments	11,000	11,000	29,222	18,222
Licenses and Permits	287,500	288,549	311,064	22,515
Intergovernmental	1,326,593	1,326,593	1,260,774	(65,819)
Charges for Services	486,500	487,590	414,054	(73,536)
Miscellaneous	80,700	181,146	201,491	20,345
Interest	2,000	2,000	1,538	(462)
Total Receipts	4,407,793	4,515,039	4,541,874	26,835
<b>DISBURSEMENTS</b>				
General Government	2,111,433	2,213,738	1,966,753	246,985
Protection to Persons and Property	1,083,660	1,143,715	1,077,514	66,201
General Health and Sanitation	193,400	251,110	235,109	16,001
Social Services	77,000	103,230	97,534	5,696
Recreation and Culture	161,600	141,100	125,557	15,543
Debt Service	66,100	66,100	42,017	24,083
Capital Projects	206,000	161,000		161,000
Administration	827,085	753,531	698,930	54,601
Total Disbursements	4,726,278	4,833,524	4,243,414	590,110
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(318,485)	(318,485)	298,460	616,945
<b>Other Adjustments to Cash (Uses)</b>				
Lease Proceeds	200,000	200,000	200,000	
Transfers To Other Funds	(281,515)	(281,515)	(275,000)	6,515
Total Other Adjustments to Cash (Uses)	(81,515)	(81,515)	(75,000)	6,515
Net Change in Fund Balance	(400,000)	(400,000)	223,460	623,460
Fund Balance Beginning (Restated)	400,000	400,000	378,751	(21,249)
Fund Balance - Ending	\$ 0	\$ 0	\$ 602,211	\$ 602,211

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>ROAD FUND</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,489,794	\$ 1,489,794	\$ 1,323,383	\$ (166,411)
Miscellaneous	1,500	1,500	20,499	18,999
Interest	470	470	441	(29)
Total Receipts	<u>1,491,764</u>	<u>1,491,764</u>	<u>1,344,323</u>	<u>(147,441)</u>
<b>DISBURSEMENTS</b>				
Roads	1,432,564	1,444,904	1,055,208	389,696
Administration	259,200	246,860	143,297	103,563
Total Disbursements	<u>1,691,764</u>	<u>1,691,764</u>	<u>1,198,505</u>	<u>493,259</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>145,818</u>	<u>345,818</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	
Total Other Adjustments to Cash (Uses)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	
Net Change in Fund Balance	(100,000)	(100,000)	245,818	345,818
Fund Balance Beginning	<u>100,000</u>	<u>100,000</u>	<u>1,547</u>	<u>(98,453)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 247,365</u>	<u>\$ 247,365</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 116,575	\$ 116,575	\$ 106,911	\$ (9,664)
Miscellaneous	200	200		(200)
Interest	60	60	60	
Total Receipts	116,835	116,835	106,971	(9,864)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	294,000	348,000	240,390	107,610
Administration	24,350	25,350	23,916	1,434
Total Disbursements	318,350	373,350	264,306	107,610
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(201,515)	(256,515)	(157,335)	97,746
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	181,515	181,515	175,000	(6,515)
Total Other Adjustments to Cash (Uses)	181,515	181,515	175,000	(6,515)
Net Change in Fund Balance	(20,000)	(75,000)	17,665	92,665
Fund Balance Beginning (Restated)	20,000	75,000	75,839	839
Fund Balance - Ending	\$ 0	\$ 0	\$ 93,504	\$ 93,504

**SPENCER COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2015**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**SPENCER COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



**SPENCER COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance Restated*	Additions	Deletions	Ending Balance
Land*	\$ 323,379	\$	\$	\$ 323,379
Land Improvements	130,312			130,312
Buildings*	2,463,578			2,463,578
Vehicles and Equipment*	3,043,206	57,856	100,411	3,000,651
Infrastructure	3,498,599	195,920		3,694,519
 Total Capital Assets	 \$ 9,459,074	 \$ 253,776	 \$ 100,411	 \$ 9,612,439

**SPENCER COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2015**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**Note 2. Prior Period Adjustments**

The capital asset schedules for land, buildings, and vehicles and equipment were increased by \$10,779, \$135,848, and \$161,515, respectively, to include prior year additions not reported.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Riley, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Spencer County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Spencer County Fiscal Court's financial statement and have issued our report thereon dated March 11, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Spencer County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Spencer County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2015-001 to be a material weakness.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Spencer County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**County Judge/Executive's Response to Finding**

The Spencer County Judge/Executive's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Spencer County Judge/Executive's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 11, 2016

**SPENCER COUNTY**  
**COMMENT AND RECOMMENDATION**  
**For The Fiscal Year Ended June 30, 2015**



**SPENCER COUNTY**  
**COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2015**

**INTERNAL CONTROL - MATERIAL WEAKNESS:**

**2015-001    Spencer County Fiscal Court Lacks Adequate Internal Controls Over The Payroll Process**

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The Spencer County Fiscal Court does not have sufficient internal controls in place to ensure accurate payroll processing and adequate recordkeeping.

The timesheets are prepared manually and do not include proper information for each employee as required. Timesheets are not checked by supervisors for proper calculation of time worked or for employee signature prior to being submitted to the county treasurer for payment. Employees are allowed to convert any compensatory/vacation leave to additional pay on any timesheet without proper documentation. Compensatory time earned for the pay period submitted may be added to the employee's leave balance, or paid to the employee. Employees may also split the time and get paid for some hours but add the remaining to their leave balance. This is not properly documented and makes calculations for hours work for the pay period difficult. In addition, personnel files for each employee do not contain all required information and are not kept in an orderly manner. Updated personnel information is vital in determining proper withholdings and pay rates for each employee when calculating payroll.

Without accurate timesheet calculations, employees may be incorrectly paid and cause payroll to be misstated. Leave balances could also be misstated due to errors on timesheets. Excessive time is spent by county personnel recalculating time sheets and obtaining proper signatures prior to processing payroll. In addition, without updated personnel file information, calculations for withholdings, retirement, and health insurance may be incorrect. Additional audit time is required to test payroll. Deferred Compensation paid by the county on behalf of the employees included an employee who did not have the reported amount withheld from his salary.

KRS 337.320(1) states, in part, "Every employer shall keep a record of... [t]he hours worked each day and each week by each employee." KRS 337.320(2) further requires, "Such records shall be kept on file for at least one (1) year after entry." In addition, good accounting and recordkeeping practices dictate that timesheets should be kept for payroll verification, as a record of leave time used and overtime paid, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. Further, these documents are necessary to support accurate reporting to the Kentucky Retirement System and state and federal taxing authorities. Timesheets should be signed by both the employee and a direct supervisor to document and acknowledge agreement by the employee and supervisor that the timesheet accurately reflects time worked during the period.

Adequate internal controls over personnel files maintained should contain at least information for the following; employment application, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, W-4 form, INS Form I-9, specimen signatures, and termination data, where appropriate.

We recommend that timesheets be updated to include the hours worked each day and each week by each employee. A direct supervisor should review timesheets for accuracy and sign to acknowledge approval prior to submission to the county to minimize errors. Any changes to the time submitted on a timesheet should include proper documentation by the employee of acknowledgement and agreement with the changes. All personnel files should be updated to include employment applications, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, W-4 form, INS Form I-9, specimen signatures, and termination data, where appropriate. The personnel files should be kept in an orderly manner to easily access the required information. The county treasurer should contact the deferred compensation administrator to determine proper procedures for the employee who received the benefit of deferred compensation without having the reported amount withheld from his salary.

**SPENCER COUNTY  
COMMENT AND RECOMMENDATION  
Fiscal Year Ended June 30, 2015  
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESS (CONTINUED):

2015-001    Spencer County Fiscal Court Lacks Adequate Internal Controls Over The Payroll Process  
(Continued)

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*County Judge/Executive's Response: The current administration is committed to making improvements to the payroll process as recommended in the auditors comment. We have updated the employee timesheets and have included a coversheet for department heads as a summary for each pay period to assure they have been checked for accuracy. All department heads have been directed to carefully examine employee timesheets to assure they are complete, signed and checked for accuracy of calculations of hours worked prior to submitting them to the County Finance Officer and County Treasurer. Any adjustments or corrections will be properly acknowledged by employees. We welcome this opportunity to embrace the auditors recommendations and improve our payroll processes, files and internal controls.*



